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FISCAL IMPACT STATEMENT

LS 7337 | **NOTE PREPARED:** May 5, 2011
BILL NUMBER: HB 1007 | **BILL AMENDED:** Apr 29, 2011

SUBJECT: State and local administration.

FIRST AUTHOR: Rep. Messmer | **BILL STATUS:** Enrolled
FIRST SPONSOR: Sen. Hershman

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: *Enterprise Information Technology Equipment:* This bill extends the period of time in which a county, city, or town may provide a tax exemption for enterprise information technology equipment until January 1, 2017. (Current law permits the exemptions until January 1, 2013.)

Fraternity / Sorority Property Tax Exemption: The bill provides that the property tax exemption for fraternity or sorority property applies to property used for administrative purposes, including property owned by a national or international headquarters, fraternity or sorority foundations, and housing corporations. It specifies that the exemption applies only if the property is owned by a fraternity or sorority (or a national or international headquarters, foundation, or housing corporation related to a fraternity or sorority) that is exempt from federal income taxation under Section 501(c)(2), Section 501(c)(3), or Section 501(c)(7) of the Internal Revenue Code. It also deletes from current law the requirement that property may qualify for the exemption only if the property is used exclusively by the fraternity or sorority to carry out its purposes.

Exemption for Property Leased to BMV: This bill provides a property tax exemption for certain property leased to the Bureau of Motor Vehicles (BMV) or Bureau of Motor Vehicles Commission (BMVC) for the 2010 through 2016 assessment dates and it provides that an exemption application does not have to be filed annually to continue the exemption through the 2016 assessment date.

Abatement Enhancement: The bill permits a city, town, or county to enhance property tax abatement schedules to allow up to three years of 100% abatement if the business meets one of the following criteria: (1) locates in a large vacant building; (2) agrees to invest at least $10 million in the community; (3) rehabilitates and occupies property in designated downtown areas; or (4) locates in a county with high unemployment.

Alternative Abatement Schedule: This bill authorizes local entities to develop alternative methods for determining the duration and amount of property tax abatements.

Hiring Incentives: The bill authorizes cities and counties to pay hiring incentives for new employment in their jurisdictions. It requires hiring incentives to be paid from local option income taxes received by the city or county and it provides that the hiring incentives may not exceed the local option income taxes paid by the new employees.

Qualified Energy Savings Projects: This bill removes the requirement that any annual operating savings realized by Purdue University and Indiana University with respect to qualified energy savings projects in excess of the annual debt service requirements on bonds issued for the projects be used to fund basic research for the Indiana Innovation Alliance.

PSAP: The bill provides that a PSAP operated by an excluded city in Marion County does not count against the limit on the number of PSAPs in the county.

Property Tax Exemption - Cooperative House: This bill provides for the retroactive application of a property tax exemption to a taxpayer that owns real and personal property used as part of or in connection with a men's cooperative house.

Property Tax Exemption - Medical Society: The bill provides for a two-year property tax exemption for the property of the Marion County Medical Society (which provides services to its members as the Indianapolis Medical Society) and similarly situated medical societies.

Property Tax Exemption - Center for the Arts: This bill provides a property tax exemption for 2010 and 2011 for property owned by a nonprofit corporation and used as a center for the arts and for which an exemption was granted before 2010.

Property Tax Exemption - Community Services: The bill provides a property tax exemption for property taxes due in 2009, 2010, and 2011 for an organization in Marion County that is dedicated to providing services to the community and that failed to timely file an application for those years, if the organization was entitled to an exemption in 2007 for the same property.

Effective Date: Upon passage; January 1, 2008 (retroactive); January 1, 2010 (retroactive); July 1, 2011.

Explanation of State Expenditures: *Hiring Incentives:* The IEDC would be required to compile an annual report based on the reports received from qualified units and to submit that report to the Legislative Council.

Explanation of State Revenues:

Explanation of Local Expenditures: *Hiring Incentives:* Employers would annually report, to the qualified taxing unit, the number of new jobs and the income tax revenue withheld from the employees in those jobs.

The qualified taxing unit would also be required to submit an annual report to the IEDC that contains:

1. The number of businesses receiving hiring incentives in the year;
2. The location of each business receiving hiring incentives in the year;
3. A summary of the local incentives provided to each business receiving hiring incentives; and
4. The number of jobs created and average salary paid by the taxpayers receiving hiring incentives.

Explanation of Local Revenues: *Enterprise Information Technology Equipment:* Under current law, a county or municipal fiscal body may grant a property tax exemption for new enterprise information technology equipment owned by an eligible business by adopting a resolution by December 31, 2012. The term of the exemption, however, may extend beyond 2012 and must be set in an agreement between the designating body and eligible business. Under this bill, the fiscal bodies would have until December 31, 2016 to grant an exemption.

Fraternity / Sorority Property Tax Exemption: Under current law, a fraternity or sorority is entitled to a property tax exemption on up to one acre of land plus the real property improvements and personal property on the land if the property is connected to an educational institution and used exclusively to carry out its purpose. In addition, a fraternity or sorority headquarters may qualify for an exemption under the statute allowing an exemption for an educational or charitable purpose.

This bill would:

1) Remove the one acre limitation on the land exemption;
2) Allow the exemption for fraternities and sororities that are *related to* an educational institution;
3) Include in the definition of fraternities and sororities, (a) an international, national, state, or local office that oversees member chapters, (b) a related foundation, and (c) a related housing corporation;
4) Include certain limited liability companies in the definitions of fraternity and sorority;
5) Include fraternities and sororities in the list of entities that would file only once for an exemption rather than filing annually;
6) Allow an exemption for taxes payable in 2011 for property acquired for the future use of a fraternity or sorority; and
7) Remove the exclusive use test.

One Acre Limit. A review of county property tax data revealed that there were 366 parcels in the state that currently had a fraternity or sorority exemption in 2010. These parcels had a total gross assessment of $127.5 M. All but $3.9 M was exempt and the net taxes billed totaled $76,111. If it is assumed that the $3.9 M in nonexempt AV is related to excess land over one acre, then this bill would shift the $76,111 in taxes from the fraternities and sororities to other taxpayers.

Headquarters. The provision that would treat a fraternity or sorority headquarters the same as a chapter would ensure that the headquarters receives an exemption. Under current law, local taxing officials must make a determination as to whether a headquarters qualifies for an exemption under the educational or charitable purpose exemption statutes. In some cases, local taxing officials have denied the exemption. The fiscal impact of this provision depends on the final adjudication of any appeals of local denials. If the headquarters ultimately prevail, then this provision would have no impact. However, if the headquarters do not prevail, then this bill would shift the headquarters' property tax burden to other taxpayers. The number of properties that would be affected is not currently known.

Future Use Exemption. Property not yet used for fraternity or sorority purposes does not qualify for the exemption. Property tax rates for 2011 have been set for 91 counties. If an additional exemption is allowed for taxes payable in 2011 then the affected taxing units would forego receipt of the taxes from these parcels. The number of properties and taxes that would be exempted are not currently known.

Exclusive Use. If property owned by a fraternity or sorority is not exclusively used to carry out its purpose, the property does not currently qualify for the exemption. Under this provision, the fraternity or sorority may qualify for a partial use exemption on the portion of the property used in accordance with the exempt purpose. This provision could result in an increase in the amount of property that could qualify for a fraternity / sorority exemption. The potential increase is unknown. Any increase in exemptions would shift a part of the property tax burden from the owners of the exempt property to all other property owners.

Exemption for Property Leased to BMV: Under this provision, a taxpayer that leases real property to the BMV would receive a property tax exemption for taxes payable in 2011 through 2017 if:

1) The owner filed an exemption application between January 16, 2010 and January 24, 2010, inclusive, for taxes payable before 2011; and
2) A full or partial exemption was granted in any prior year.

The total number of properties that could be affected is unknown. One property has been identified in Marion County. According to county records, the original Pay 2011 tax bill was $27,393 on an assessed value of $913,100. In 2008, records show the exemption on the same gross assessment was $776,140. Assuming that the same portion of the property would be exempt under this provision, the taxes that would be cancelled for Pay 2011 are estimated at about $22,718. The affected local civil taxing units and school corporation would forego this revenue. The increase in exemptions would shift a part of the property tax burden from the owners of the exempt property to all other property owners beginning with property taxes payable in 2012.

Tax Abatement Enhancement: Under current law, designating bodies may approve property tax abatements in an economic revitalization area. The abatements may be granted for 1 to 10 years, or up to 5 years for real property located in a residentially distressed neighborhood, or up to 2 years if the property is an eligible vacant building. The amount of the assessed value that is abated starts at 100% in the first year and then declines each year on a scale determined by the total number of years for which the abatement is approved.

This provision would apply to property that meets one of the following sets of criteria:

1. The property is an eligible vacant building with at least 50,000 square feet and there is an agreement to use the property for an industrial or commercial purpose;
2. The applicant agrees to invest at least $10 M in property eligible for abatement,
3. The property is the subject of a proposed rehabilitation in a designated downtown area; or
4. The property is located in a county that has an unemployment rate which (1) has exceeded the statewide average rate by at least 2% in each of the last 2 years, or (2) was double the statewide average rate in the prior year.

A city or town fiscal body could, under the bill, designate any part of (1) the central business district, or (2) a commercial or mixed use area that has been the retail service and communal focal point within the community since the founding of the community, as a designated downtown area. The designated area could not exceed 15% of the municipality's geographical area.

The designating body would be able to enhance tax abatements for qualifying property by allowing an abatement up to 100% each year, for the first 3 years of the abatement. This provision would also allow up to 1 additional year of abatements on qualifying eligible vacant buildings and it would allow for larger abatement percentages for real and personal property for the second and third years of an abatement.

Under current law, a real property abatement for an eligible vacant building reduces the existing tax base for up to 2 years. Under this bill, the tax base reduction could be extended for up to 1 additional year. A tax base reduction causes a shift of the property tax burden from taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. Abatements for other real and personal property, however, are limited to new property that has not been a part of the tax base.

Alternative Abatement Schedule: This provision allows designating bodies to use an alternative abatement schedule. The percentage of deduction and the length of the abatement, not to exceed 10 years, would be set by the designating body based on the following factors:

1. The total amount of the taxpayer's investment;
2. The number of new jobs created and the average wage as compared to minimum wage; and
3. The infrastructure requirements for the taxpayer's investment.

The use of an alternative schedule would be a local decision.

Hiring Incentives: Under this bill, a county or city that receives CAGIT, COIT, or CEDIT distributions could enter into a hiring incentive agreement with an employer. The incentive could be claimed only for new jobs. The taxing unit that provides the incentive would make determinations regarding whether jobs were relocated from one Indiana site to another. These jobs would not qualify for the incentive.

The agreement would specify the duration and amount of the incentive with the duration capped at 10 years. The incentive may be stated as a percentage of local option income taxes withheld and remitted by the taxpayer on behalf of the new employees who reside in the county and it may include a fixed dollar limit. This incentive would be paid by the authorizing county or city from that unit's share of the legacy CAGIT, COIT, or CEDIT distribution.

The amount of LOIT paid to employers as incentives under this provision would depend on decisions by the county or municipality. The foregone LOIT revenue would only affect the designating unit. The fiscal impact of this provision depends on local decisions.

Property Tax Exemption - Cooperative House: Under this provision the owner of a men's cooperative house may receive a property tax exemption for taxes payable in 2007, 2008, 2009, and 2010 if the property would have qualified for the exemption if the application had been timely filed.

The total number of taxpayers impacted is unknown. However, one taxpayer in Tippecanoe County has been identified as qualifying for and exemption under this provision. The total net taxes billed for years 2007 through 2010 is $69,344. The taxing units that provide services to this property would forego the $69,344 in expected revenue.

Property Tax Exemption - Medical Society: Under this provision, a medical society would receive an exemption from property tax for taxes payable in 2011 and 2012 if the medical society received an exemption for taxes payable in 2009 and 2010 but failed to file timely for the 2011 exemption.

The total number of properties that could be affected is unknown. One property owner in Marion County has been identified as qualifying for the exemption under this provision. The net taxes billed on the otherwise exempt portion of the real property for 2011 is about $7,212. Under this provision, the exemption would apply retroactively and the tax bill would be cancelled. The local taxing units and school corporation located in the property's taxing district would forego receipt of their share of the $7,212 that is due. The exemption would continue in force for taxes payable in 2012.

Property Tax Exemption - Center for the Arts: Under this provision, a property owner would receive an exemption from property tax for taxes payable in 2011 and 2012 if:

1) The property is used in conjunction with a religious, educational, charitable, civic, or cultural activities;
2) Part of the property is leased to a nonprofit center for the arts;

3) An exemption application for taxes payable in 2011 was filed on or by May 17, 2010; and
4) The property received an exemption in a prior year.

Under this provision, the exemption would apply retroactively and the 2011 tax bill would be cancelled. The local taxing units and school corporation located in the property's taxing district would forego receipt of their share of the amount due. The exemption would continue in force for taxes payable in 2012. The impact is not currently known.

Property Tax Exemption - Community Services: Under this provision, a property owner would receive an exemption from property tax for taxes payable in 2009, 2010, and 2011 if:
1) The property is in Marion County;
2) The owner is an organization that is dedicated to providing various community services;
3) An exemption application was not timely filed for taxes payable in 2009, 2010, and 2011; and
4) The property received an exemption for taxes payable in 2007.

Under this provision, the exemption would apply retroactively and the 2009, 2010, and 2011 tax bills would be cancelled. The local taxing units and school corporation located in the property's taxing district would forego receipt of their share of the amount due. The property would also be removed from the tax sale list. The impact is not currently known.

State Agencies Affected: Indiana Economic Development Corporation.

Local Agencies Affected: County and municipal fiscal bodies; Civil taxing units and school corporations; Marion County public safety answering points.

Information Sources: OFMA property tax database; Marion County Treasurer website.

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